

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO

Case No. 1:07-cv-00239-WYD-KLM

RAINBOW REWARDS USA, INC., a Delaware corporation,

Plaintiff,

v.

SOURCE, INC., a Delaware corporation,

Defendant.

SECOND AMENDED COMPLAINT FOR DECLARATORY RELIEF

Plaintiff Rainbow Rewards USA, Inc. (“Rainbow Rewards”) complains against defendant Source, Inc. (“Source”) as follows:

PARTIES, JURISDICTION, AND VENUE

1. This is an action for declaratory relief under the Declaratory Judgment Act, 28 U.S.C. §§ 2201 and 2202, and under the patent laws of the United States, 35 U.S.C. § 100 *et seq.*, seeking a declaration that all claims of the United States Patent number RE 36,116 (“the ‘116 patent”) (a copy of the ‘116 Patent is attached as Exhibit 1) are invalid and/or unenforceable, and that Rainbow Rewards does not infringe any valid and enforceable claim(s) of the ‘116 patent.

2. Rainbow Rewards is a Delaware corporation with its principal place of business in Denver, Colorado.

3. Source is a Delaware corporation and, upon information and belief, has its principal place of business in Newhall, California. On information and belief, Source owns the rights in the '116 patent, whose validity, enforceability and infringement are challenged in this action.

4. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §§ 1331 and 1338.

5. This Court has personal jurisdiction over Source under Colorado's long arm statute, C.R.S. § 13-1-124, because Source conducts business in this State including actively marketing its products and services related to the '116 patent in this State through its websites such as www.sourceinc.tv, www.slnint.com, www.scoreinfo.tv, and www.scoremall.com. Source has also accused Rainbow Rewards of unlawful patent infringement in the State of Colorado.

6. Venue is proper in this district under 28 U.S.C. §§ 1391(b) and 1400(b).

7. This action is properly brought under 28 U.S.C. § 2201, because an actual controversy exists between Rainbow Rewards and Source concerning the validity of the claims of the '116 patent, and whether Rainbow Rewards infringes any valid claims of the '116 patent. Specifically, on or about December 12, 2006, Source caused a letter to be sent to Rainbow Rewards, asserting that Rainbow Rewards' loyalty program infringes at least one claim of the '116 patent. A copy of this letter is attached as Exhibit 2.

GENERAL ALLEGATIONS

8. Rainbow Rewards provides a consumer loyalty program through which merchants can offer rewards to its customers who can receive cash-back in connection with one or more purchases made at one or more participating merchants.

9. Upon information and belief, Source provides a reciprocal loyalty platform through which loyalty program providers, such as Rainbow Rewards, can offer their services to merchants and consumers.

10. On information and belief, Source owns the rights in the '116 patent.

FIRST CLAIM FOR RELIEF (Declaration of Non-Infringement)

11. Rainbow Rewards incorporates by reference the allegations set forth in Paragraphs 1 through 10 of this Complaint as if fully set forth herein.

12. Rainbow Rewards' loyalty program does not infringe any valid and enforceable claim(s) of the '116 patent.

13. An actual controversy exists between Rainbow Rewards and Source regarding the infringement of the claims of the '116 patent by Rainbow Rewards.

14. Rainbow Rewards is entitled to a declaration from this Court that it is not infringing any valid and enforceable claim(s) of the '116 patent.

15. The present case is exceptional because Source has acted maliciously and with an intent to harm Rainbow Rewards. Accordingly, Rainbow Rewards is entitled to recover its reasonable attorneys fees and costs attendant to this matter.

**SECOND CLAIM FOR RELIEF
(Declaration of Invalidity)**

16. Rainbow Rewards incorporates by reference the allegations set forth in Paragraphs 1 through 10 of this Complaint as if fully set forth herein.

17. All of the claims of the '116 patent are invalid under the provisions and requirements of at least 35 U.S.C. §§ 102, 103 and 112.

18. An actual controversy exists between Rainbow Rewards and Source regarding the validity of the claims of the '116 patent.

19. Rainbow Rewards is entitled to a declaration from this Court that all of the claims of the '116 patent are invalid.

**THIRD CLAIM FOR RELIEF
(Declaration of Unenforceability)**

20. Rainbow Rewards incorporates by reference the allegations set forth in Paragraphs 1 through 10 of this Complaint as if fully set forth herein.

21. All of the claims of the '116 patent are unenforceable.

22. An actual controversy exists between Rainbow Rewards and Source regarding the enforceability of the claims of the '116 patent.

23. Rainbow Rewards is entitled to a declaration from this Court that all of the claims of the '116 patent are unenforceable.

24. The '116 patent is a reissue of U.S. Patent No. 5,287,268 ("the '268 patent"). The application for the '268 patent was filed on November 16, 1992, and it purported to be a "continuation" of the application that resulted in U.S. Patent No. 5,202,826 ("the '826 patent").

25. The application for the '826 patent was filed on November 26, 1991, and it purported to be a "continuation" of the application that resulted in U.S. Patent No. 5,117,355 ("the '355 patent").

26. The application for the '355 patent was filed on April 18, 1990, and it purported to be a "continuation" of the application for U.S. Patent No. 4,941,090 ("the '090 patent). The application for the '090 patent was filed on January 27, 1989.

27. The named inventor of all of these patents is Patrick D. McCarthy ("McCarthy").

28. The '116 patent on its face states that the "portion of the term of this patent subsequent to Jul. 10, 2007, has been disclaimed."

29. Thus, the '090 is the ultimate parent of the '116 patent and the '116 patent is the product of a series of patent applications that were represented to the PTO to be continuations of the '090 parent patent. The specification of each of the "continuation" applications, however, contained material changes to the prior application's specifications, as detailed below.

30. McCarthy and his attorneys had a duty to notify the PTO about the changes in the specifications. Their failure to do so constitutes inequitable conduct that renders the '116 patent unenforceable.

31. Specifically, the application that became the '355 patent claimed priority from and was submitted to the PTO as a "continuation" of, the '090 application. The '355 application, however, included numerous additions to and deletions from the '090 patent specification, some or all of which constituted new matter. A comparison of the specifications of the '090 patent and the '355 patent, obtained from the full-text versions of the patents from the PTO website, is attached hereto as Exhibit 3.

32. The application that became the '826 patent claimed priority from and was submitted to the PTO as a "continuation" of, the '355 application. The '826 application, however, included numerous additions to and deletions from the '355 patent specification, some or all of which constituted new matter. A comparison of the specifications of the '355 patent and the '826 patent, obtained from the full-text versions of the patents from the PTO website, is attached hereto as Exhibit 4.

33. The application that became the '268 patent claimed priority from and was submitted to the PTO as a "continuation" of, the '826 application. The '268 application, however, included numerous additions to and deletions from the '826 patent specification, some or all of which constituted new matter. A comparison of the specifications of the '826 patent and the '268 patent, obtained from the full-text versions of the patents from the PTO website, is attached hereto as Exhibit 5.

34. Thus, upon information and belief, McCarthy and/or his attorneys represented to the PTO that each successive patent was a "continuation" of the '090 patent application, without disclosing to the PTO that the successive application contained new matter and without identifying all such new matter. The undisclosed new matter was material to the priority date of the claims of the '355, '826, and '258 patents. Upon information and belief, McCarthy and/or his attorneys failed to notify the PTO of the new matter with the intent to deceive the PTO, in order to avoid a PTO inquiry into whether the subject matter of the claims of each successive application was entitled to the same filing date as the '090 patent application, and in order to avoid the potential effect of such an inquiry upon the validity of the claims.

35. The acts referred to above constitute inequitable conduct by McCarthy and/or his attorneys with respect to the prosecution of the '355, '826 and '268 patents.

36. Because the '116 patent is a reissue of the '268 patent, which was represented to be a continuation application in the direct chain of applications issuing from the '090 patent, inequitable conduct with respect to any of the patents discussed above renders the '116 patent unenforceable.

37. Upon information and belief, McCarthy and/or his attorneys also engaged in inequitable conduct with respect to the prosecution of the '116 patent. During the prosecution of the '116 patent, the PTO pointed out to McCarthy and/or his attorneys that the '116 patent specification is sufficiently different from the '090 specification so that it could not be a continuation of the '090 patent. The PTO required that McCarthy and/or his attorneys amend the '116 patent specification to reflect the fact that the '116 patent is a "continuation in part" of the '090 patent.

38. McCarthy and/or his attorneys filed an amendment in order to indicate that "there is additional subject matter in [the '355 patent specification] beyond that found in [the '090 specification]." McCarthy and/or his attorneys did not, however, disclose to the PTO that new matter was also added in the '826 and '268 patent applications, as discussed above. Thus, McCarthy and/or his attorneys failed to disclose to the PTO the existence of numerous other differences between the '116 patent specification and the '090 patent specification, shown in the comparison of the two specifications, obtained from the full-text versions of the patents from the PTO website, attached hereto as Exhibit 6.

39. Some or all of these additions and deletions constituted new matter. On information and belief, McCarthy and/or his attorneys knowingly misrepresented to the PTO that the subject matter of every claim of the '116 patent was entitled to the same filing date as the '090 patent and failed to disclose that new matter was added in the '826 and '268 applications. Upon information and belief, McCarthy and/or his attorneys engaged in these misrepresentations and omissions with the intent to deceive the PTO and in order to avoid any PTO inquiry into whether the subject matter of the claims in the '116 patent application was entitled to the filing date of the '090 application. These misrepresentations and omissions were material to the priority date of the claims of the '116 patent.

40. Accordingly, these misrepresentations and omissions by McCarthy and/or his attorneys constitute inequitable conduct in the prosecution of the '116 patent rendering that patent unenforceable.

41. A final instance of inequitable conduct by McCarthy and/or his attorneys concerns failure by McCarthy and/or his attorneys to disclose material prior art information to the PTO. Specifically, upon information and belief, McCarthy and/or his attorneys failed to disclose to the PTO during the prosecution of any of the patents discussed above certain material information about a commercially available credit card, offered by Discover, that provided cash rebates. This information constituted prior art that would be materially relevant to the prosecution of each of the patents discussed above.

42. In failing to disclose to the PTO material information related to the prior art discussed above, McCarthy and/or his attorneys failed to fulfill their uncompromising duty to disclose and candidly present to the PTO information that they knew or should have known to be

material to the examination of each patent application. Upon information and belief, McCarthy and/or his attorneys withheld such information with the intent to deceive the PTO. This failure to disclose material information to the PTO constituted inequitable conduct by McCarthy and/or his attorneys rendering the '116 patent unenforceable.

43. The intent to deceive the PTO by McCarthy and/or his attorneys can be inferred from each individual instance of conduct described in paragraphs 24-42 above, and also from the overall repeated pattern of their behavior.

PRAYER FOR RELIEF

WHEREFORE, Rainbow Rewards respectfully requests that this Court:

- a. Enter judgment in its favor on the claims asserted in this Complaint;
- b. Declare that none of the claims of the '116 patent is valid;
- c. Declare that none of the claims of the '116 patent is enforceable;
- d. Declare that Rainbow Rewards does not infringe any valid or enforceable claim(s) of the '116 patent;
- e. Declare that this case is exceptional under 35 U.S.C. § 285 and award Rainbow Rewards its legal costs and expenses, including reasonable attorneys' fees; and
- f. Award such other and further relief as the Court deems just in the circumstances.

JURY DEMAND

Rainbow Rewards demands a trial by jury on all issues so triable.

DATED: September 26, 2007.

s/Srecko "Lucky" Vidmar

Srecko "Lucky" Vidmar (Colo. Atty. Reg. No. 34921)
Thomas J. Rossa (*Admitted in this District*)
Blaine J. Benard (*Admitted in this District*)

HOLME ROBERTS & OWEN LLP
1700 Lincoln Street, Suite 4100
Denver, CO 80203
Telephone: (303) 861-7000
Facsimile: (303) 866-0200
Email: lucky.vidmar@hro.com;
blaine.benard@hro.com
thom.rossa@hro.com

ATTORNEYS FOR PLAINTIFF RAINBOW REWARDS
USA, INC.

Address of Plaintiff:

999 Eighteenth Street
South Tower
Suite 2250
Denver, CO 80202